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Item 5(b) of the provisional agenda
Matters relating to the mechanisms under the Kyoto Protocol
Review of the joint implementation guidelines

Synthesis report on examples of voluntary technical approaches, designed by host Parties for their joint implementation projects, that could assist the host Parties in achieving their quantified emission limitation or reduction commitments under the Kyoto Protocol

Note by the secretariat

Summary

This report synthetizes the information contained in the submissions from Parties in relation to voluntary technical approaches adopted by Parties to allow joint implementation (JI) under the Kyoto Protocol in order to assist Parties in achieving their quantified emission limitation or reduction commitments under the Kyoto Protocol, in accordance with decision 5/CMP.10, paragraphs 6 and 7. This report, in particular, highlights the manner in which Parties have chosen to make use of the international framework for JI and how they have integrated JI into their mix of mitigation policies established at the national level. In doing so, this paper highlights several examples of voluntary technical approaches implemented by Parties.

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I. Introduction

A. Mandate

1. The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), by decision 9/CMP.1, adopted the guidelines for the implementation of Article 6 of the Kyoto Protocol, the joint implementation (JI) guidelines. By the same decision, the CMP decided that the first review of the guidelines should be carried out no later than one year after the end of the first commitment period, based on recommendations by the Joint Implementation Supervisory Committee and the Subsidiary Body for Implementation (SBI). SBI 39 initiated the review of the JI guidelines and Parties have continued to consider this matter since then. At SBI 42, Parties will continue their negotiations on the JI guidelines on the basis of the draft decision text and its appendix proposed by the co-facilitators of the informal consultations on the review of the JI guidelines at SBI 41, as contained in the annex to document FCCC/SBI/2014/L.34.

2. CMP 10, through its decision 5/CMP.10,[1] invited Parties to submit to the secretariat, by 16 March 2015, examples of voluntary technical approaches, designed by host Parties for their JI projects, that could assist the host Parties in achieving their quantified emission limitation or reduction commitments (QELRCs) under the Kyoto Protocol. The CMP also requested the secretariat to synthesize these submissions into a synthesis report for consideration at SBI 42.

B. Scope of the note

3. This report synthesizes the following two submissions[2] received by Parties in accordance with the mandate referred to in paragraph 2 above:

(a) A submission from Latvia and the European Commission on behalf of the European Union (EU) and its member States;

(b) A submission from Switzerland.

C. Possible action by the Subsidiary Body for Implementation

4. In accordance with decision 5/CMP.10, Parties may wish to take into consideration the information included in this synthesis report in their deliberations at SBI 42 under the agenda item 5(b), "Review of the joint implementation guidelines".

II. Synthesis of the submissions from Parties

A. Integrating joint implementation in national policy

5. Although JI has been implemented under the rules established for the Kyoto Protocol, the provisions for JI allow its implementation by Parties to occur in a variety of ways at the national level, depending on how Parties consider it will best complement their

[1] Decision 5/CMP.10, paragraphs 6 and 7.

[2] The submissions are available at: <http://unfccc.int/5900.php>.

national circumstances and priorities. In providing examples of these different approaches, the submissions stressed that they are not an exhaustive list and that the choice of how to implement JI domestically is a matter of sovereign policy for each host Party, taking into account the costs and benefits, which may vary across countries, projects and time.

6. A number of key messages are provided through the submissions as follows:

(a) JI can be used by Parties to reduce domestic emissions and hence can contribute towards their QELRCs. It should be used in a manner that fits into the overall mitigation strategy of the Party, taking into account other policies and measures such as emissions trading systems, tax measures, environmental subsidies and regulatory measures. Emission reduction units (ERUs) are issued for the difference between the project emissions and the 'crediting threshold', which may or may not be equal to the baseline or reference level;

(b) Integrating JI into the national policy mix can mobilize the Party's private sector in areas of the economy that are not specifically covered by other energy or climate policies, and incentivizes this sector to achieve reductions beyond the levels required by such policies;

(c) It is important that reductions in emissions through JI are reflected in the national inventory of the Party. This does not take place automatically as national inventories estimate emissions at the aggregate level and do not necessarily utilize JI project-level data. Methodological consistency is needed between JI projects and national inventories in order to avoid any difficulty in achieving compliance with a QELRC as a result of ERUs being transferred to another Party while the national inventory remains unaffected;

(d) The reduction of emissions through a JI project may be 'shared' between the project owner and the Party. ERUs received by the project owner may be transferred to another Party and therefore will not be available for compliance with a QELRC in the originating Party. Assuming methodological consistency (as discussed in paragraph 6(c) above), the full ERU issuance and transfer of the emission reductions as ERUs will reduce both the national inventory and the assigned amount of the Party, resulting in the host Party not receiving any assistance in achieving its QELRC. A partial issuance of ERUs for the project owner would retain a part of the emission reduction benefit for the host Party, as would full issuance of ERUs with a portion being retained by the host Party. These measures help a host Party to ensure that the use of JI provides it with assistance in achieving its QELRC.

7. The submissions highlighted the importance of considering the risk of double counting that may occur as a result of using JI in conjunction with other national policies. This can take place if emission reductions are being separately accounted for under JI and under an emissions trading system that covers the sector in which the JI project is located. Parties may respond by disallowing such overlap or by using special provisions (such as 'set-asides' of allowances) to address it.

B. Examples of voluntary technical approaches

8. The submissions provided specific examples of approaches used by Parties to integrate JI into their mix of national policies. One submission listed the benefits of this integration as being: the discovery of untapped domestic mitigation potential; the identification and coverage of policy gaps; paving the way for new policies by incentivizing mitigation before and/or beyond requirements; the provision of incentives for earlier, faster, deeper, broader and more cost-effective and/or more innovative mitigation;

the utilization of private sector resources and insights; the promotion of a level playing field across various mitigation technologies and among national and international actors; and the quantification of emission reductions.

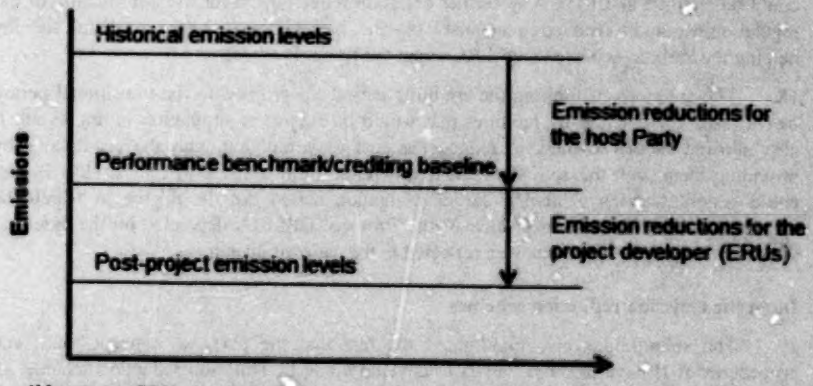
1. Emissions performance benchmarks

9. One of the submissions provided the example of EU member States, in particular Belgium, Finland, France and Germany, selecting the emissions performance benchmarks applicable to specific sectors. One such approach used the emissions range achievable from the best available technology to determine these benchmarks[3] (e.g. crediting baselines) instead of using the emissions range achievable from the current or most used technology. A related approach applied an approved clean development mechanism methodology that uses a conservative approach and takes national regulations into account to determine a crediting baseline below historical emissions.

10. Under both variations of the approach, the lower crediting baseline compared to the historical emission level meant that projects established in those host Parties would have to achieve a better emissions performance range in order to receive credits under JI.

11. In this way, Parties established a baseline standardization for the calculation of emission reduction factors for their projects. The emission reductions achieved by the project below the crediting baseline could be used to issue ERUs, while the emission reduction achieved by the project in lowering emissions from their historical levels to the crediting baseline would then help the Party to achieve its QELRC under the Kyoto Protocol.

Division of emission reductions under the performance benchmark approach



Abbreviation: ERUs = emission reduction units.

12. As the emission reductions between the historical level and the crediting baseline were reflected in the Parties' inventories, this approach assisted Parties in meeting their Kyoto Protocol QELRCs. Under this approach, both the host Party and project developer could benefit through: a domestic mitigation potential at a lower cost, the investment and implementation of the best available technology standards in advance of any regulation, and the generation of revenue. However, the more stringent the crediting baseline, the narrower the scope of the emission reductions and the weaker the financial incentive for investing in the best available technology.

[3] Actual baselines varied across Parties and over time during the crediting period.

2. Discounted emission reductions

13. Another example provided in one of the submissions was the application of a discount factor to the issuance of emission reductions as ERUs. Thus, a JI project would not issue ERUs for all its emission reductions achieved.

14. In this example, the full emission reductions of the project were calculated using pre-approved methodologies that ensured that the emission reductions achieved by the JI projects were also requested to be reflected in the national inventory. The discount served as a buffer in order to promote conservativeness and to help the host Party in achieving its Kyoto Protocol QELRC.

15. Such discounting is motivated by conservativeness and/or achievement of domestic mitigation, and it may vary across host Parties, project types and time. Under this approach, both the host Party and project developer benefit through achieving domestic mitigation at a lower cost, and through financially attractive investments and the generation of revenue. However, discounting reduces the amount of ERUs received by the project developer and thereby reduces the financial incentive.

3. Limiting crediting periods by reference to regulation

16. One of the submissions provided the example of limiting crediting periods to the date on which mandatory regulations become effective. During the period prior to the regulation becoming mandatory, facilities that voluntarily implemented activities to comply with the regulation were considered eligible for crediting under JI.

17. All the emission reductions achieved by these JI projects during the transition period could be credited as ERUs. Any further emission reductions, after the introduction of the regulation, would be credited to the host Party (i.e. no ERUs were issued for them), thereby helping the Party to achieve its QELRC under the Kyoto Protocol.

18. The approach of limiting the crediting period for projects to the transitional period incentivized early action by facilities that would be subject to regulation in any event. It also allowed facility owners to reduce the cost of complying with the regulations by providing them with the ability to generate revenue from the sale of ERUs. Host Parties could benefit through achieving earlier mitigation action but the degree to which the approach assisted them to meet their Kyoto Protocol QELRCs depended on the extent to which the emission reductions were reflected in the national inventory.

4. Domestic emission reduction schemes

19. The submissions also highlighted the fact that the purpose, concept, rules and procedures of JI have inspired Parties to develop domestic emission reduction schemes or programmes as part of their policies and measures to meet their Kyoto Protocol QELRCs.

20. For some domestic emission reduction schemes, the national authorities develop and approve methodologies in order to quantify emission reductions, which can later be included in the national inventories due to alignment with the methodologies for national inventories. Under other types of domestic emission reduction schemes, a project can only be selected if it follows certain categories/sectors decided by the Party in accordance with its national priorities. Some of these projects could be validated by the national authority or were required by the national authorities to be validated by an approved validator.

21. Related to the emission reductions generated by these projects, a Party could commit to purchasing a fixed amount or to paying for the verified emission reductions during a certain period. A Party could also issue a certificate/unit for the voluntary domestic emission reductions that could be used within the context of a domestic policy and measure. Neither of these affect the assigned amount held by Parties but all emission

reductions achieved – either at cost under the agreed purchase or domestic policy, or for free – can be credited to the host Parties and would help these Parties in achieving their Kyoto Protocol QELRCs.

C. Conclusion

22. These examples of different voluntary approaches for using JI, either directly or indirectly, are possible due of the flexibility of the mechanism. Parties have been creative and innovative in using and promoting these types of projects that can help them to achieve domestic emission reductions and therefore their national and international QELRCs. These approaches have also assisted project developers, as they are financially attractive and generate revenues so as to assist companies in complying with national regulations.

23. The submissions also noted that the experience of integrating JI into a national policy mix may have relevance beyond the context of the Kyoto Protocol and may be of interest to any Party that wishes to achieve domestic mitigation in a cost-effective manner in cooperation with its private sector.